

21 February 2008

OFGEM LAUNCHES PROBE INTO ENERGY SUPPLY MARKETS

- **Ofgem has launched a probe into the electricity and gas supply markets**
- **While the regulator has no strong evidence of failure of the market, it has decided to investigate it to address mounting concern among customers that could undermine confidence in competition**
- **The probe will be under Ofgem's Enterprise Act powers and all of the regulator's other powers remain available to it**
- **Initial views from the probe will be published before the end of September**
- **Fuel Poverty summit announced for April**

Energy regulator Ofgem today (Thursday) has launched an investigation into the markets in electricity and gas for households and small businesses.

Ofgem chief executive Alistair Buchanan said: "The decision to conduct the probe is in response to public concern about whether the market is working effectively. We are concerned about the increased volatility of wholesale prices and we want to investigate how European and other global energy market developments are affecting energy bills in Britain.

"We, of course, keep the market under constant surveillance but to date we have seen no clear evidence that the market is failing.

"Nevertheless, recent events in the market have increased public concern and have damaged customers' confidence that competition is working well and giving them a good deal. Customer confidence is vital for a well-functioning market. So we shall replace our magnifying glass with a microscope and take a more detailed look at the retail market and the influence of global wholesale market developments.

"The detailed probe we are now launching will investigate whether the market is working well for all energy customers – and not just particular groups such as those who are on the cheapest online deals. Customers certainly should not stop switching as there are still big savings to be made by changing your price plan, your supplier and the way you pay."

The probe will be carried out under Ofgem's Enterprise Act powers which will give the regulator access to detailed information that is not routinely made available. The European Commission has pledged to collaborate with Ofgem in the probe to ensure the British regulator is fully informed on other European energy markets.

In January Ofgem responded to allegations in the press of price fixing by suppliers with assurances that the regulator has seen no evidence of such activity and that remains the case. Now, as then, Ofgem urges anyone with evidence of anticompetitive behaviour by the energy suppliers to come forward with it.

Should the regulator's findings lead to the need for further action, Ofgem can draw on a range of powers. These include powers under company licences, the Competition Act, or referral of the whole market to the Competition Commission. Initial findings from the probe will be published before the end of September - ahead of next winter.

Ofgem is already looking at tariffs for prepayment customers and those who do not pay their energy bill by direct debit. Ofgem will update its findings at a Fuel Poverty Summit in April, chaired by Ofgem chairman Sir John Mogg. Participants will include the Secretary of State for Environment, Food and Rural Affairs, Hilary Benn and the Energy Minister, Malcolm Wicks. The summit will consider other key issues of concern in tackling fuel poverty.

- ends -

Notes to editors

1 The objective of the probe is to examine in detail whether the energy market is working for all customer groups in the GB gas and electricity supply markets. It will be carried out under Ofgem's Enterprise Act powers which enable the regulator to access company information otherwise not routinely available to it.

2 The investigation will cover:

- the customer's perspective and experience of the market including access to information and barriers to switching supplier;
- suppliers' market shares, switching rates for different groups of customers (such as online, dual fuel, single fuel and pre-payment);
- the competitiveness of suppliers' pricing in the different market segments and customer movement between payment types as well as suppliers;
- the relationship between retail and wholesale energy prices; and
- the economics of new entry and the experience of companies trying to enter the energy market.

The investigation will cover markets serving domestic customers and small businesses.

3 Possible outcomes of the probe range from a referral of the market to the Competition Commission, to enforcement under Ofgem's own powers, campaigns to promote customer awareness and participation in the market, recommendation to government for legislative changes or a clean bill of health for the market.

4 The Fuel Poverty Summit will be held on 23rd April 2008 and will be chaired by Ofgem chairman Sir John Mogg. Participants will include Secretary of State for Environment, Food and Rural Affairs, Hilary Benn and Energy Minister Malcolm Wicks. The summit will also address issues affecting vulnerable customers' access to better choices in the market.

5 During the probe Ofgem has available its full range of powers under the Competition Act, the Gas and Electricity acts and the Enterprise Act.

6 In 2004 Ofgem launched a probe into the gas sector to consider whether a lack of competition in European supply markets was affecting GB customers. Ofgem has agreed arrangements with the European Commission's Competition Directorate who will assist in the probe.

7. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. Ofgem's aim is to bring choice and value to all gas and electricity customers by promoting competition and regulating monopolies. The Authority's powers are provided for under the Gas Act 1986, the Electricity Act 1989 and the Utilities Act 2000. In this information note, the functions of the Authority under the relevant Acts are, for simplicity, described as the functions of Ofgem.